

Securing the Steady Growth of Credit Portfolios in Commercial Banks

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Abstract

One of the essential conditions for implementing the financial operation of enhancing the sustainable growth of the credit portfolio volume of commercial banks is to stimulate the financial support of the investment needs of enterprises in the real sector of the national economy. Therefore, as part of the strategic plan for the improvement of the banking system for the years 2020-2025, ensuring the steady and balanced expansion of bank credits is recognized as a crucial direction in enhancing the banking system.

The article identifies challenges related to ensuring the sustainable growth of credit portfolios in national banks, and scientific proposals have been developed to address and resolve these issues.

Keywords: *commercial banks, credit, credit portfolios, classified credits, problematic loans, income, interest income, interest rate, inflation, deposit.*

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Introduction

Enhancing the lending operations of commercial banks in the Republic of Uzbekistan is considered a crucial issue for the development of the national economy. Specifically, within the framework of the strategy for the improvement of the banking system in Uzbekistan for the years 2020-2025, priority attention is given to aligning credit operations with market demands, reducing banks' dependence on state resources, improving the quality and management of credit portfolios and liabilities, and achieving a balanced level of credit volume growth. These strategic directions are recognized as key components in the overall strategy for reforming the banking system in the Republic of Uzbekistan [1]. This, in turn, underscores the necessity of ensuring the sustainable growth of credit portfolios by commercial banks.

Title: Literature Review on the Topic

J. Sinkin's perspective emphasizes that the primary activity of banks is to finance through loans, utilizing deposits. However, if traditional banks are solely viewed as intermediaries in the distribution of financial resources, there emerges a need for specialized institutions that engage in information processing and operations to serve the current stage of economic development [2].

According to U. de Soto, commercial banks direct their efforts towards supporting investment projects, aligning interest rates on investment loans with the profits generated by these projects. Banks connect investment loans with profitable projects and the failure of credits due to the misalignment of interest rates results in the success or failure of investment projects [3].

As per the views of V. Kayukov and A. Kayukov, to optimize the mechanism of providing corporations with loans, commercial banks must strengthen their resource base, ensuring the proportionality of assets and liabilities of banks according to their volume and maturity [4].

O. Lavrushin suggests that short-term lending for specific objects, within the framework of a credit line, has advantages for large corporations. These advantages include being exclusive to legal entities, accounting only for large corporations as bank clients, catering to corporations in constant need of short-term resources, and being provided only to clients who have a solid financial reputation with the bank [5].

Referring to J. Goodwin's conclusion, the positive impact of the COVID-19 pandemic on banks' lending operations results in increased liquidity issues. To address this, the UK Government provided a guarantee for loans of up to £330 billion, and the Bank of England lowered its historic discount rate to 0.1% on March 19, 2020 [6].

A group of Chinese economists argues that the Central Bank's efforts to positively influence interest rates on loans by relaxing mandatory reserve requirements have a significant role in mitigating the adverse effects of the coronavirus pandemic on banks' lending operations. The People's Bank of China announced the release of 550 billion yuan (USD 70.3 billion) on March 13, 2020, to increase liquidity, and it lowered the interest rates on one-year and five-year loans to 0.1% and 0.05%, respectively [7].

O. Sattarov highlights that increasing the level of provision for losses from loans can be considered as a positive indicator of a bank's stability in ensuring the sustainability of its lending operations [8].

According to L. Muradov, diversification of credit portfolios by designating credit limits for certain industry sectors contributes to improving the stability of commercial banks [9].

N. Jumayev notes that the deepening of the global debt problem underscores the need for more effective utilization of international investment loans to enhance the profitability of borrowing on the international credit market [10].

Analysis and Findings

In the progressive economies, banks employ a comprehensive approach to utilizing various forms of lending in their interactions with corporations, particularly in meeting their investment needs. Leasing loans and syndicated loans are extensively utilized in lending to corporations.

Furthermore, the positive impact on the creditworthiness of corporations due to the effective use of risk mitigation instruments, such as provisions for possible loan losses, is evident. This reflects the positive influence on their lending capacity.

Additionally, in progressive economies, a significant emphasis is placed on diversifying the credit portfolios to manage credit risks effectively. For instance, in the United States, banks strictly adhere to the principle of portfolio diversification. In this country, no more than 25% of the credit portfolios of commercial banks are allocated to a single sector of businesses.

One of the key conditions for ensuring the sustainable growth of bank loans is the consideration of the interest rates on loans. The alignment of interest rates to be both low and stable is considered crucial.

The table below provides information on the interest rates on deposits and loans of Russian commercial banks, evaluating their stability (Table 1).

1-table. The average annual interest rates on deposits and loans in the national currency, the Russian ruble, for commercial banks in the Russian Federation are as follows, as of [11].

Indicators:	2017	2018	2019	2020 .	2021
Deposit Interest Rate	8,2	5,9	5,6	4,1	4,4
Loan Interest Rate	12,1	10,5	9,5	8,3	8,8

Table 1 indicates a declining trend in the average interest rates on deposits accepted in the national currency by commercial banks in the Russian Federation from 2017 to 2020. This declining trend is explained by the fact that there has been a consistent decrease in the average interest rates on loans extended in the national currency by commercial banks during the same period. Furthermore, the average interest rates on deposits and loans offered by Russian commercial banks in 2021 have significantly decreased compared to 2017. These conditions can be viewed as positively contributing to the investment attractiveness of commercial banks.

2-table. The average annual interest rates on deposits and loans in foreign currency, as provided by commercial banks in the Republic of Uzbekistan, as of [12].

Indicators:	2017	2018.	2019	2020	2021
Average annual interest rate on foreign currency deposits with a maturity of up to 1 year	14,2	14,9	16,1	16,3	15,5
Average annual interest rate on foreign currency loans	16,2	21,1	23,7	22,3	20,8

From the information presented in Table 2, it can be observed that the interest rates on foreign currency deposits and loans offered by commercial banks in our republic have been relatively high from 2017 to 2021.

3-table. The amount and level of provisions utilized to accumulate losses from loans at Bank of America (USA) are provided by [13].

Indicators	2017	2018	2019	2020	2021
Amount of provisions for loans, million US dollars	3396	3282	3590	11329	4594
Ratio of provisions for loans to gross assets, %	0,1	0,1	0,1	0,4	0,1

According to the information provided in Table 3, it can be observed that at Bank of America, the provisions utilized to accumulate losses from loans exhibited a growing trend from 2018 to 2020. This indicates a positive outlook in terms of the bank's efforts to manage losses in its credit services. However, in 2021, the level of this indicator has experienced a noticeable decline compared to 2020.

Moreover, the ratio of provisions for loans to gross assets at Bank of America, as indicated in Table 3, has remained consistent and positive from 2017 to 2021 (except for 2020). This suggests a favorable state in terms of the bank's ability to effectively manage credit services.

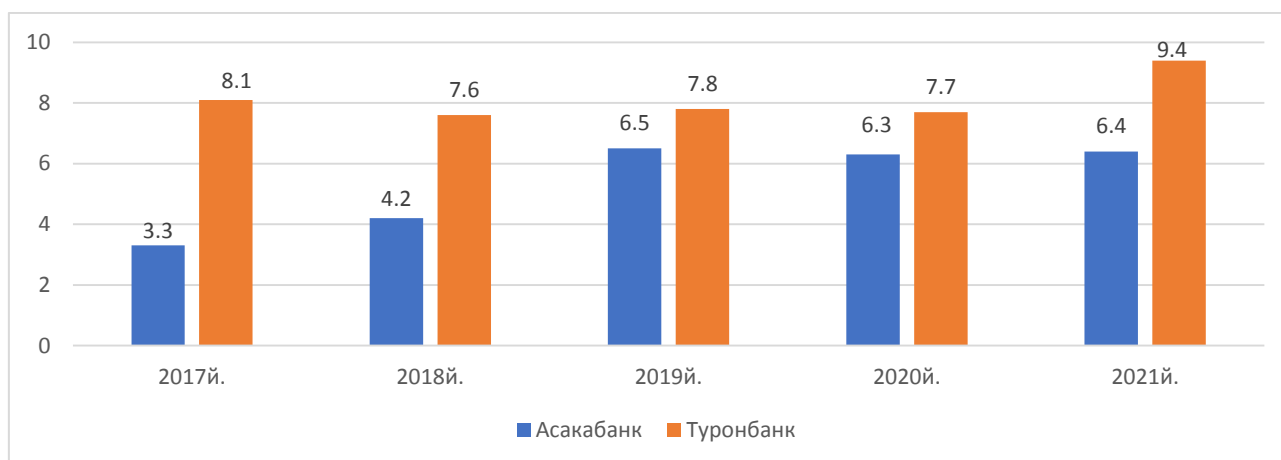


Image 1. Profitability of loans at JSC "Asaka Bank" and JSC "Turkiston Bank" [14].

According to the information in the first image, it is possible to observe that the profitability of loans at Asaka Bank has significantly increased in 2021 compared to 2017. However, there was a decrease in this indicator in 2020 compared to 2019.

Similarly, from the data presented in the first image, it can be noted that the profitability of loans at Turkiston Bank has shown a noticeable increase in 2021 compared to 2017. However, in 2020, this indicator decreased significantly compared to 2017.

Summary and Recommendations

In the course of the research, the following conclusions were drawn:

- The stability of deposit and credit interest rates in Russia's commercial banks from 2017 to 2020 indicates a positive trend. This aligns with the tendency of commercial banks to raise

interest rates on deposits and loans in national currency.

- The interest rates on deposits and loans in foreign currency in Uzbekistan's commercial banks have been relatively high from 2017 to 2021.
- The data from the third table illustrates an increasing trend in Bank of America's provision for losses from credit impairment from 2018 to 2020. This reflects the bank's effort to enhance the efficiency of its credit services. However, the indicator for 2021 shows a significant decrease compared to 2020.
- The third table also shows that Bank of America's ratio of provisions for credit losses to gross assets has remained stable and high from 2017 to 2021, indicating the bank's effective management of its lending operations.
- As for Asaka Bank, the profitability of loans increased significantly in 2021 compared to 2017, with a slight decrease in 2020 compared to 2019. Meanwhile, Turonbank experienced a growth in the profitability of loans in 2021 compared to 2017, but a decline compared to 2017 in 2020.

Recommendations:

1. To enhance the quality of credit portfolios, commercial banks should invest in modern banking technologies to improve the efficiency of lending operations, consider offering lower interest rates on loans using interest income from loans, and maintain a balance between short-term deposits and long-term deposits with interest income.
2. To ensure a stable resource base for lending, commercial banks should liberalize long-term deposits by freeing them from mandatory reserve requirements. They should also utilize valuable papers related to emission operations through the tools of monetary and fiscal policies of the state. Additionally, banks need to restrict the use of deposits as a resource in cases where they are not stable.

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